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RUSSIAN GOLD POLICY

1. A note dated 16.3.50. outlined the trends of Russian gold policy during 1949 and reviewed problems connected with Russian gold stocks and the rouble, and with Soviet Bloc movements of gold to the West amounting to about £50 million.
2. The present note reviews Russian gold policy during 1950 and 1951, the chief features of which are:
 - a) A decline in Soviet Bloc gold movements to the West (no direct shipments of gold have come from Russia).
 - b) Increased Russian financial control over the Satellites.

GOLD POLICY

3. Just prior to the occupation of China by the Communists, the Chinese were paying up to 80 U.S. dollars per ounce for gold. The occupation closed the Chinese gold market and prices in world gold markets slumped. At one period, free market prices fell to nearly 35 dollars per ounce, which is the official price laid down by the International Monetary Fund. The participation of the Chinese in the Korean War stimulated world demand for gold and prices rose again. More recently, the increased demand in India and in the Far East, presumably caused by the uncertain political outlook, has been responsible for maintaining the free market price of gold at about 40 dollars per ounce.
4. The size of the Russian gold stock is still unknown. A former employee of the Soviet gold industry has expressed the view that 1,000 tons is the absolute minimum figure. Annual output in Russia is estimated to be between 300 and 400 tons and the area of gold production has been expanding. There are signs of an intensification in the Russian thirst for gold. Russia has obtained gold from China, Manchuria, Sinkiang and the Satellites. The total Roumanian annual output, which is some 7 tons, is under Russian control and is taken by Russia. Again, Russia still holds the 11 tons of gold which should have been transferred to Persia in exchange for currency notes issued by Persia to the Russian occupation forces during the war.
5. Our last note referred to the Soviet declaration that the rouble had been placed on a gold basis. We have received no further details. It is still not clear whether Russian gold plays any part as a normal currency backing and foreign exchange reserve.
6. Although rates of exchange have been established between the rouble and the different satellite currencies and although the rouble is being used as the unit of account for trade within the Soviet Bloc, it does not circulate as a currency outside the Soviet Union.

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7. During 1951, the Satellites despatched missions to Moscow with the object of studying the Russian financial system and exploring the possibilities of developing trade under long-term arrangements. Bilateral agreements on a rouble basis, lasting until 31.12.55, have since been concluded. It is believed that a devaluation of Satellite currencies may be a further outcome of these negotiations.

SOVIET BLOC MOVES OF GOLD

8. The following is a list in chronological order of the principal moves of Soviet Bloc gold to the West reported as taking place during 1950-51. For uniformity, dollar values have been quoted.

<u>1950</u>	\$5,728,800	Czechoslovakia to U.K.
	5,798,240	" " to Holland
	1,850,240	Poland " "
	2,240,000	Poland/Czechoslovakia to Tassier
	1,120,000	Yugoslavia to U.K.
	1,380,000	Poland (50% Soviet gold) to Switzerland
	6,830,500	Poland " " to Holland
	250,000	Hungary to Holland
	19,040,000	Switzerland (Roumanian gold) to Argentine
<u>1951</u>	1,120,000	Roumania to Holland
	10,080,000	" " Uruguay
	1,462,720	Czechoslovakia (Roumanian gold) to Holland
	45,000,000	Hungary (via Switzerland) to Italy
	840,000	Czechoslovakia to Uruguay
	4,704,000	" " to Holland
	7,000,000	Hungary to Switzerland (in periodical consignments of 1 ton)
<u>Total:</u>	<u>\$114,444,500</u>	

Movements of gold on Hungarian account amounted to some \$55 million, whilst on Roumanian, Czech and Polish accounts the amounts were \$32, \$18 and \$9 million respectively.

9. A rough comparison between the above total and that for 1949 (\$140 million), shows that moves of Soviet Bloc gold to the West, taking place during both 1950 and 1951, were substantially less than those taking place in 1949.

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10. The majority of the above moves have been by air. Our knowledge of the reasons for the moves and of the disposal of the gold is limited. The following examples show that, in some cases, the moves are the result of straightforward commercial transactions, and in others, the object is to provide funds. We often lose sight of the gold once it arrives at its ostensible destination.
- (i) Part of the \$5,798,240 consignment from Czechoslovakia to Holland was destined for the Dutch assay industry, part is alleged to have been used to settle a Russian debt to Switzerland and the remainder, after temporary storage, was further consigned to Paris, Geneva, Basle and London.
 - (ii) The Polish and Czech \$2,240,000 consignment to Tangier, took place allegedly to benefit from the rise in the free price of gold following the outbreak of the Korean War.
 - (iii) The \$13,800,000 consignment from Poland to Switzerland, half of which consisted of Russian gold, was used to pay for Polish imports of Swiss goods under the Swiss/Polish exchange of goods agreement.
 - (iv) The large consignment of \$19 million of Roumanian gold from Switzerland to the Argentina represented payment for grain deliveries made by the Argentine to Roumania in 1948.
 - (v) The consignment of \$7 million from Hungary to Switzerland was sold for dollars. The Swiss, who judged the consignment to be newly mined Russian gold, despatched it for re-sale in Saigon and Syria.
11. Whilst there have been no direct shipments of gold from Russia to the West, the fact that a consignment of gold from Poland to U.K. was found to be franked with Russian assay markings is further evidence of Russian gold finding its way to the West through Satellite channels. An indication of Russian control over Satellite gold is illustrated by the following: In May, 1951, the Roumanians, on the orders of the Russian Ambassador in Bucharest, paid part of the proceeds from the sale of Roumanian gold held in Switzerland to the Czechs, in spite of having given previous assurances to the Swiss that the proceeds of any sale would be used solely towards liquidating Roumanian debts to Switzerland.

WESTERN TRADING FACTORS

12. In general, Russia retains credit balances on commercial account with most West European countries and therefore does not rely on the sale of gold for the provision of funds. (For example, in Belgium, Russian balances amount to approximately 2,000 million Belgian francs). The principal Satellites also normally retain sufficient funds in the West to meet trade requirements. However, the normal trading relationship between East and West was upset in 1950-51.

13. Resulting from the Communist occupation of China, the American attitude towards the Soviet Bloc stiffened and the

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U.S.A. placed severe restrictions on exports to that area. No corresponding ban was then placed on imports and the Russians found themselves earning dollars from shipments of manganese to the U.S.A. which they were unable to spend on their own trade requirements. Thus in 1950, Russian dollar balances increased.

14. In 1951, the picture changed. American freezing of Chinese dollar holdings, resulting from Chinese participation in Korea, alarmed the Russians. Fearing that similar action might be taken against them, they began to unload their dollars. In the latter half of 1951 particularly, a continual rundown of Russian dollar holdings in the West took place. On occasion, the Russians have offered to pay in dollars where other currencies were acceptable. Meanwhile, American purchases in Russia ceased. Thus Russia had now lost her source of dollar earnings.
15. The position was further aggravated during 1951 by the effects of the Western embargo which were twofold: Firstly, a decline in normal trade between East and West and, secondly, considerable Soviet Bloc purchases of strategic materials at inflated prices in the West, in circumvention of the embargo. Large quantities of dollars were paid. Until recently, there has been no apparent shortage of dollars for these purchases except in the case of Czechoslovakia and Hungary, both of which managed to rectify the deficiency, either from the Russians direct, or from the sale of gold.
16. Again, Russia has now substantial supplies of sterling. In 1950, trade between the sterling area and Russia was approximately in balance. In 1951, the Anglo-Russian trade agreement and the effects of U.K. controls on exports to Russia, have left the latter with a large sterling balance.

SUBVERSIVE FUNDS

17. Gold smuggling as a means of financing Soviet subversive aims in the West was practised in the early post-war period. The Russians made use of professional couriers and their legal representatives to handle and dispose of the gold. In 1949, the Russians are reported to have applied the proceeds of both official and smuggled gold sales to the credit of Western Communist Parties. There has been no evidence of the Russians smuggling gold since the middle of 1950.
18. An important method of providing funds for subversive activities in the West, has been by diverting profits accruing to Western firms engaged in trade with Satellite Government trading agencies. Since the beginning of 1950, Communist controlled firms in Italy have been particularly active in raising funds from special commissions and discounts picked up in the course of trade with their Satellite trading partners.
19. Although transfers of funds from behind the Curtain, to the Banque Commerciale pour l'Europe du Nord and other undesirable Western Banks, have been used extensively for Satellite commercial requirements, a proportion has been used for communist political purposes.

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FUTURE POLICY

20. Plans have been announced to increase the 120 tons per annum output of gold in the Kolyma basin by 150 - 200% in 1955. This area is the chief source of Russian gold and lies to the north of the Okhotsk Sea in the north-easterly part of Siberia. Russia apparently continues to follow the policy of building up large reserves.
21. With regard to the rouble, it may be that a further outcome of the 1951 Moscow long-term trade and finance negotiations will result in this unit of currency becoming fully gold backed and freely convertible throughout the Soviet Bloc.
22. The depressing effects on world gold prices brought about by the closing of the Chinese market, have been partly offset by the expansion of the Indian market, which is present, absorbing a regular stream of smuggled gold from Tangier, Beirut and the Far East. It is possible that high prices obtaining in India may attract Soviet Bloc gold. So far, there is no indication of this.
23. In the Western world, speculators believe that, in view of existing economic conditions, an increase in the official price of gold is inevitable. It is also possible that any such increase may stimulate Soviet Bloc sales in the West.
24. Finally, should the existing economic relationship between East and West persist, the provision of funds for Soviet requirements in the West must eventually come from the sale of gold. Although Russia has adequate supplies of sterling at her disposal, she needs dollars for her most urgent requirements. To convert sterling into dollars in sufficient quantities by illegal means may not be easy. Some indication of Russian economic intentions may be forthcoming at the April economic conference in Moscow.

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